

Message Text

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21

ACTION NEA-10

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INFO AMEMBASSY CARACAS

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TAGS: EINV, EMIN, EIND, CG, KU

SUBJECT: ZAIRE-REYNOLDS ALUMINUM PROJECT

REF: A. KUWAIT 4435 (NOTAL) B. KINSHASA 9546 (NOTAL)

C. STATE 265917 (NOTAL)

SUMMARY: REYNOLDS GROUP LED BY CHAIRMAN LOUIS REYNOLDS HAD WHAT APPEARS TO HAVE BEEN SUCCESSFUL TWO-DAY VISIT HERE DURING WHICH COMPANY GAINED APPROVAL IN PRINCIPLE OF GOK TO PARTICIPATE IN ZAIRE PROJECT WHICH APPARENTLY WILL ALSO INVOLVE VENEZUELA AND JAPAN AS WELL. FINAL GOK ROLE WILL DEPEND ON DETAILED ECONOMICS OF PROJECT. IN ADDITION REYNOLDS DISCUSSED AND ON VERGE IMPLEMENTING SMALL JOINT VENTURE AGREEMENT FOR KUWAIT THAT MAY BE FOLLOWED BY OTHERS. END SUMMARY.

1. REFTELS DISCUSSED PLANNED VISIT TO KUWAIT OF REYNOLDS

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METALS COMPANY CHAIRMAN LOUIS REYNOLDS AND OTHERS TO DISCUSS

POSSIBLE KUWAITI PARTICIPATION IN MAJOR ZAIRE ALUMINUM SMELTER PROJECT. REYNOLDS HAD RAISED SUBJECT AT SUGGESTION OF WORLD BANK WITH KUWAIT FINANCE MINISTER ATEEQUI DURING HIS VISIT TO US LAST SUMMER. ADDITIONAL DISCUSSIONS WERE HELD IN KUWAIT WITH ATTEEQI AND OTHER TOP FINANCE MINISTRY OFFICIALS NOVEMBER 24-25. ACCORDING TO BOTH REYNOLDS AND FINANCE MINISTRY SOURCES, GOK PREPARED PARTICIPATE IN ZAIRE PROJECT.

2. ACCORDING TO REYNOLDS GROUP THERE WILL ALSO BE JAPANESE AND VENEZUELAN PARTICIPATION. SIX MAJOR JAPANESE ALUMINUM CONSUMERS WILL COMPRISE PRINCIPAL MARKET FOR ZAIRE ALUMINUM. APPARENTLY THEY WILL NOT HAVE EQUITY INTEREST IN PROJECT. REYNOLDS AND JAPANESE HAVE WORKED WITH EACH OTHER IN SIMILAR MANNER IN VENEZUELA. VENEZUELAN ROLE IN ZAIRE PROJECT WILL RESULT FROM \$40 MILLION RELATED CARBON ANNODE/CATHODE PLANT TO BE SITUATED IN VENEZUELA INVOLVING KUWAIT/ VENEZUELA/REYNOLDS EQUITY PARTICIPATION. IN ADDITION ALUMINA FROM REYNOLDS-VENEZUELA JOINT VENTURE WILL BE USED IN ZAIRE PROJECT. ACCORDING TO REYNOLDS GROUP, ATEEQI WAS PARTICULARLY ENTHUSIASTIC ABOUT WORKING ON PROJECT ALSO INVOLVING VENEZUELAN.

3. ON KUWAITI SIDE UNDERSECRETARY OF FINANCE SHAIKH ALI KHALIFA AL-SABAH WILL FOLLOW ZAIRE PROJECT PERSONALLY. HE INTENDS VISIT TO JAPAN IN FEBRUARY (IN HIS CAPACITY AS MEMBER OF BOARD OF ARABIAN OIL COMPANY),AND HE ASKED REYNOLDS TO MEET HIM THERE TO INTRODUCE HIM TO JAPANESE COMPANIES INVOLVED WHICH INCLUDE AMONG OTHER MITSUBISHI, MARUZEN AND SUMITOMO. ALI KHALIFA WILL THEN VISIT REYNOLDS HEADQUARTERS IN VIRGINIA.

4. REGARDING FINANCING, ATTEEQI TOLD REYNOLDS GROUP THAT GOK WOULD HAVE AN AS YET UNDETERMINED KUWAITI FINANCIAL INSTITUTION BECOME INVOLVED, BUT FOR NOW IT APPERS THAT REYNOLDS WILL HAVE FNCB PUT TOGETHER FINANCING PACKAGE. OF APPROXIMATELY 800 MILLION TOTAL PROJECT COSTS, REYNOLDS-GOK DISCUSSION DEALT ONLY WITH \$351 MILLIONSMELTER. KUWAITIS BELIEVE ZAIRE INTERESTS SHOULD OWN 50 PERCENT OF EQUITY WITH REYNOLDS AND GOK EACH OWNING 25 PERCENT. APPARENTLY, SOME WAY WILL HAVE TO BE FOUND TO FINANCE ZAIRIAN SHARE OF EQUITY. ALTHOUGH NO PRE-LIMITED OFFICIAL USE

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CISE FIGURE WAS MINTIONED WE WOULD ANTICIPATE A KUWAITI INVOLVEMENT OF \$75-100 MILLION, SHOULD IT DECIDE TO PARTICIPATE.

5. IN ADDITION TO ZAIRE PROJECT, REYNOLDS GROUP DISCUSSED MODEST ALUMINUM EXTRUSION JOINT VENTURE WITH KUWAITIS. UNDER AGREEMENT KUWIAT PRIVATE COMPANY WILL OWN 49 PERCENT, INDUSTRIAL BANK OF KUWAIT (IBK) 30 PERCENT AND REYNOLDS 21 PERCENT. IBK SAYS IT WILL VOTE ITS SHARE WITH REYNOLDS

ASSURING EFFECTIVE CONTROL BY US FIRM. THIS IS FIRST PROJECT IN KUWAIT WHERE IBK WILL HOLD EQUITY INTEREST. MOREOVER, IBK ALREADY WANTS TO DISCUSS OTHER PROJECTS WITH REYNOLDS INCLUDING ALUMINUM CAN AND ALUMINUM BARGE PROJECTS.

6. COMMENT: BASED ON OUR INFORMATION REGARDING THE REYNOLDS VISIT IT APPEARS VISIT WAS SUCCESSFUL BOTH WITH RESPECT TO ZAIRE PROJECT AND LOCAL JOINT VENTURE AND POSSIBLE OTHER ACTIVITIES IN KUWAIT ITSELF. WITHOUT REFERRING TO REFS B AND C WE QUESTIONED REYNOLDS OFFICIALS CLOSELY REGARDING COMMERCIAL VIABILITY OF ZAIRE PROJECT AND POSSIBLE COMPETITION FROM OTHER ALUMINUM COMPANIES. REYNOLDS OFFICIALS REPLES WERE UNIFORMLY OPTIMISTIC. THEY CLAIMED TO HAVE SOLID ASSURANCES FROM GOZ AND ARE CONFIDENT PROJECT WILL BE VERY PROFITABLE. HOWEVER, THERE WAS NO RPT NO MENTION OF ANY AGREEMENT WITH SAUDI ARABIA OR THAT SAUDI ARABIA WOULD BE IMPORTANT MRKET FOR ZAIRE ALUMINUM. RIYNOLDS OFFICIALS REPORTED THAT KUWAITI OFFICIALS HAD DONE THEIR HOMEWORK WELL AND WERE FULLY BRIEFED ON ZAIRE AND ECONOMICS OF PROJECT PRIOR TO THEIR MEETING WITH REYNOLDS GROUP.

7. WE HOPE REYNOLD'S OPTIMISM IS WARRANTED SINCE ZAIRE PROJECT IS CLASSIC EXAMPLE OF TRILATERAL INVESTMENT THAT BOTH USG AND GOK HAVE SAID SHOULD BE UNDERTAKEN. INVOLVEMENT OF JAPAN AND VENEZUELA ADDS TO SIGNIFICANCE OF UNDERTAKING. HOWEVER, OUR READING OF REFS B AND C LEAVE US SOMEWHAT UNCOMFORTABLE. EACH SEEMS TO US TO BE SOMEWHAT PESSIMISTIC ABOUT ECONOMICS OF ZAIRE PROJECT OR OF REYNOLDS CHANCES THERE. IT WOULD BE UNFORTUNATE IF AT LATER DATE PROJECT TURNED SOUR, BECAUSE ZAIRE PROJECT IS FIRST MAJOR TRILATERAL DEAL INVOLVING US COMPANY AND GOK TO HAVE REACHED SUCH A STATE OF DISCUSSIONS. IF SUCCESSFUL IT COULD BECOME PATTERN OF FUTURE COOPERATION OF THIS NATURE. EMBASSY WOULD BE INTERESTED IN ANY COMMENT LIMITED OFFICIAL USE

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DEPARTMENT, EMBASSY KINSHASA OR OTHER ADDRESSEES WOULD CARE TO MAKE REGARDING PROJECT. STOLTZFUS

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